



System and Flexible Waivers

September 5, 2019



Background – Penalty Structure

Deficiency in either System, Local or Flexible RA Filing (Modifying Appendix A in Resolution E-4195)			
	System RA Penalty	Local RA Penalty	Flexible RA Penalty
Deficiency cured within five business days from the date of notification by the Energy Division	\$5,000 per incident if the deficiency is 10MW or smaller, \$10,000 for a deficiency larger than 10 MW. For the second and each subsequent deficiency in any calendar year, penalties will be \$10,000 per incident if the deficiency is 10 MW or smaller, \$20,000 for a deficiency larger than 10 MW.	\$5,000 per incident if the deficiency is 10MW or smaller, \$10,000 for a deficiency larger than 10 MW. For the second and each subsequent deficiency in any calendar year, penalties will be \$10,000 per incident if the deficiency is 10 MW or smaller, \$20,000 for a deficiency larger than 10 MW	\$5,000 per incident if the deficiency is 10MW or smaller, \$10,000 for a deficiency larger than 10 MW. For the second and each subsequent deficiency in any calendar year, penalties will be \$10,000 per incident if the deficiency is 10 MW or smaller, \$20,000 for a deficiency larger than 10 MW
Replaced after five-business days from the date of notification or not replaced	\$6.66/kW-month	\$4.25/kW-month	\$3.33/kW-month



Background – Penalty Structure

- System, local and flexible penalties are not duplicative, per D.06-06-064 and D.19-06-026
 - Duplicative penalties could be too punitive
 - Any cost of backstop procurement would be in addition to penalties
- D.06-06-064, p.68
 - “It is possible that an LSE is deficient with respect to both System and Local RAR, in which case penalties could accrue for both program elements. We clarify here that the penalties are not to be added; instead, the larger System RAR penalty would apply. In other words, if an LSE’s deficiency would lead to a 300% penalty for System RAR and a 100% penalty for Local RAR, then the penalty would be 300%, not 400%.”



Background – Penalty Structure

- D.19-06-026, p.19-20
 - “If an LSE faces both flexible RA and system RA deficiencies, the penalty shall be based on the following: (1) where an LSE has equivalent flexible and system deficiencies, the system RA penalty price of \$6.66/kW-month shall apply; and (2) where an LSE’s flexible deficiency exceeds its system deficiency, the system RA penalty price shall apply to the MW amount of the system deficiency, and the flexible RA penalty price (of \$3.33/kW-month) shall apply to the MW amount of the flexible deficiency in excess of the system deficiency.”



Background – Penalty Structure

- Penalties issued by the CPUC are found on our website:
 - https://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/Safety/Utility_Enforcement/Citation_Programs/Energy%20Citation%20List%20for%20Webside-Updated%204-4-19.pdf
- From 2017-2019, the deficiencies and penalties have grown larger and more frequent than previous years
 - In 2017, 6 citations were issued totaling \$150,110
 - In 2018, 10 citations were issued totaling \$2,596,739
 - From January to July 2019, 13 citations were issued totaling \$9,270,509



Background - Local Waiver

- The Commission has established a local waiver process in D.06-06-064 and D.07-06-029
 - Purpose: Mitigate market power in local areas
 - Established criteria to be eligible for waiver
 - LSE reasonably and in good faith solicited bids
 - Despite LSE's efforts to procure, received no bids or no bids under \$40/kW-year for RA capacity contract and \$73/kW-year for bundled capacity and energy product
 - Received bids under these thresholds but bids include unreasonable contract term and conditions



Background – Local Waiver

- Between 2006 and 2017, only two local waiver requests were submitted
- For the 2018 Year-Ahead process, 11 local waiver requests were submitted
- For the 2019 Year-Ahead process, 10 local waiver requests were submitted
- In 2019, despite collective deficiencies in several of the disaggregated Other PG&E local areas (Humboldt, Sierra, Stockton, Fresno), CAISO did not perform backstop procurement



2019 Year Ahead Local Deficiencies

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Bay Area	MW	1.92	69.87	3.85	1.92	4.87	1.92	1.92	1.92	22.87	8.87	0	1.92
	# of LSEs	1	2	2	1	2	1	1	1	2	2	0	1
Other PG&E	MW	27.77	169.09	7.09	10.69	130.77	44.81	192.96	30.96	338.65	205.73	108.25	145.45
	# of LSEs	5	4	3	2	6	5	7	4	9	7	7	8
LA Basin	MW	1.24	1.24	1.24	1.24	1.24	2.12	2.12	2.12	2.12	2.12	2.12	2.12
	# of LSEs	1	1	1	1	1	2	2	2	2	2	2	2
San Diego-IV	MW	0	0	0	17.29	0	255.24	255.02	255.24	255.57	97.79	0	0
	# of LSEs	0	0	0	1	0	1	1	1	1	1	0	0

Source: The State of the Resource Adequacy Market Report, September 2019, 2019 RA Filings



2019 Month Ahead Local Deficiencies

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Bay Area	MW	1.92	62.95	0	1.92	0	0	1.92	1.92	3.87
	# of LSEs	1	1	0	1	0	0	1	1	2
Other PG&E	MW	19.56	163.77	0.89	0.89	89.65	32.09	126.65	3.77	282.43
	# of LSEs	3	3	1	1	4	3	4	2	6
LA Basin	MW	1.24	1.24	1.24	0	0	2.12	1.24	1.24	2.12
	# of LSEs	1	1	1	0	0	2	1	1	2
Big Creek/Ventura	MW	0	0	0	0	0	0	0.81	0	0
	# of LSEs	0	0	0	0	0	0	1	0	0
San Diego/IV	MW	0	0	0	0	0	0	239.02	239.24	249.58
	# of LSEs	0	0	0	0	0	0	1	1	1

Source: The State of the Resource Adequacy Market Report, September 2019, 2019 RA Filings



2019 YA and MA System Deficiencies

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
YA	MW	NA	NA	NA	NA	5.49	23.25	528.12	35.80	979.21
	# of LSEs	NA	NA	NA	NA	1	3	5	4	6
MA	MW	1.8	2.45	0	0.6	6.86	20.8	159.15	27.8	847.02
	# of LSEs	1	1	0	1	2	2	4	3	5

Source: The State of the Resource Adequacy Market Report, September 2019, 2019 RA Filings



2019 YA and MA Flexible Deficiencies

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
YA	MW	8	9	2	2	2	5	36.1	3	130.1
	# of LSEs	2	2	1	1	1	3	2	1	5
MA	MW	3	0	2	2	0	2	1	3	114.1
	# of LSEs	2	0	1	1	0	1	1	1	4

Source: The State of the Resource Adequacy Market Report, September 2019, 2019 RA Filings



Background – Local Waiver

- D.19-02-022
 - Extended the local waiver process to the three-year forward local requirement
- D.19-06-026
 - Modified the waiver trigger price to \$51/kW-year
 - Modified the local penalty price to \$4.25/kW-year
- Currently no system or flexible waiver process



Waiver and Penalty Proposals

- SCE proposes to
 - Establish a waiver process for system and flexible RA
 - Set the threshold at the soft-offer cap of \$75.68/kW-year or \$6.31/kW-month
 - As RA market becomes constrained, leads to market power concerns
- Other parties have raised this issue well
- Some LSEs have requested system and flexible waivers



Recent RA Decision

- D.19-06-026 declined to extend the waiver process to system and flexible RA, but encouraged further discussion in future workshops



Background - Flexible Capacity

- D.13-06-024 recognized a need for flexible capacity in the RA fleet and defined “Flexible capacity need” as the quantity of economically dispatched resources needed by the California ISO to manage grid reliability during the greatest three-hour continuous ramp in each month. Resources will be considered as “flexible capacity” if they can sustain or increase output, or reduce ramping needs, during the hours of “flexible need.”



Background - Flexible Capacity

- D.14-06-050 adopted a flexible capacity framework
 - Must submit an economic bid
 - Categories of Must-offer Obligation

	Category 1	Category 2	Category 3
Must-offer obligation	17 Hours	5 Hours	5 Hours
	5 AM- 10 PM Daily For the whole year	3 PM to 8 PM for May – September	3 PM to 8 PM for May – September
	5 AM- 10 PM Daily For the whole year	2 PM- 7 PM for January- April and October-December	2 PM- 7 PM for January- April and October-December
	Daily	Daily	Non-holiday weekdays
Energy limitation	At least 6 Hours	At least 3 Hours	At least 3 Hours
Starts	The minimum of two starts per day or the number of starts feasible with minimum up and down time	At least one start per day	Minimum 5 starts a month
Percentage of LSE portfolio of flexible resources	At least 53 % for May – September	Up to 47% for categories 2 and 3 combined	Up to 5%
	At least 36 % for January- April and October-December	Up to 64% for categories 2 and 3 combined	Up to 5%



Flexible Waiver

- The reasoning for a flexible waiver are unclear
- No apparent market power issues
 - Total CAISO flexible resources for 2020 – about 34,000 MW
 - 2020 CAISO flexible requirements – 12,000 to 18,600 MW
- Not many flexible deficiencies
- Would appear to be a contractual issue
 - System deficiency greater than flex deficiency: only system penalty imposed (so no need for flex waiver)
 - Flex deficiency only or flex deficiency greater than system deficiency: would this not be a contractual issue, since it's about the bidding requirement?



System Waiver

- Pros
 - Could mitigate market power, if there is system market power and if it is not possible to obtain system capacity at all or only at a price deemed unreasonable (and how would that be set?)
- Cons
 - LSEs have less incentive to buy system capacity – if waiver is granted it could mean that LSEs pay nothing if CAISO does not perform backstop
 - Encourages leaning – would that result in inequities between LSEs if some procured system capacity (and paid for it) and others did not and paid neither for the capacity, nor a penalty



Other Issues - System RA Penalties

- Scenario 1
 - An LSE is deficient in system RA in the Year Ahead process, receives a citation with penalty
 - The LSE pays the fine and is not penalized again if it is deficient in the Month Ahead process
 - Appears to provide an LSE an incentive not to cure the deficiency in the Month Ahead process
 - On the other hand, does it make sense to penalize in the year-ahead and month-ahead process
- Is this a potential problem? If so, how should the Commission address it?
- Is the system penalty of \$6.66/kW-month adequate? Does it allow the deficient LSEs to buy their way out of their system RA obligation?



Other Issues - System RA Penalties

- Scenario 2
 - An LSE is deficient in summer month-ahead system RA process
 - An LSE chooses not to buy capacity above the penalty price
 - An LSE receives a citation with penalty
 - The LSE pays the fine
- Is this a potential problem? If so, how should the Commission address it?
- Is the system penalty of \$6.66/kW-month adequate for summer deficiencies? Does it allow the deficient LSEs to buy their way out of their system RA obligation during peak months when prices are potentially higher than the monthly penalty price?



Potential Solutions

- Penalize deficient LSEs in the Year Ahead and Month Ahead process
 - Gives the LSE an incentive to cure the deficiency
 - LSE will pay twice for the deficiency and once more if there is backstop
- Change the system RA penalty to seasonal prices where the penalties are higher in the summer months and lower in the winter months
- Other suggestions or solutions?